

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

May 18, 1983

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent developments. The recovery in economic activity recently has shown signs of greater vitality, with strong gains in production and employment in April. Consumer demand has picked up somewhat, and business spending on equipment appears to be firming. In the past few months consumer and producer price indexes have shown little change, but in April gasoline and food prices apparently rose sharply.

The index of industrial production posted a gain of 2.1 percent in April, following increases averaging 1 percent a month since December. Earlier this year the rise in production had been generated largely by auto sales and homebuilding, but by April strong advances were more broadly distributed among industries. Business equipment output, which had turned up in March, rose 1.8 percent in April despite a continued drop in oil and gas well drilling. Production of consumer durables and construction supplies increased substantially further.

April's strong increase in production was preceded by a record rate of inventory liquidation in March. Total manufacturing and trade stocks fell at a \$66-1/2 billion annual rate in book-value terms. With sales and shipments firming, inventory-to-sales ratios in many industries approached the levels that prevailed in early 1981 prior to the cyclical buildup in stocks. However, inventory imbalances persisted at producers of primary metals and machinery as well as at some trade outlets.

Nonfarm payroll employment increased 260,000 in April, with the largest gains in the service industries and in durable manufacturing. The rise of more than 100,000 in factory employment was the largest

one-month gain in nearly three years and brought the cumulative increase since the cyclical trough in December to 250,000. This rehiring has been accompanied in recent months by sharp increases in overtime hours. Unemployment has continued to recede gradually in recent months after dropping sharply in January, and the civilian unemployment rate edged down to 10.2 percent in April. In the weeks following the mid-month household survey, new claims for unemployment insurance declined a bit further.

Revised data indicate that retail sales were somewhat stronger in March than previously estimated, and consumer spending continued to firm in April. Demand for domestic autos, in particular, has picked up; after running at slightly more than a 6 million unit annual rate from December through March, sales of domestic cars rose to a 6.4 million unit rate in April and were up further during the first 10 days of May. The improvement encouraged automakers to raise scheduled assemblies for coming months. Foreign car sales, however, fell again in April owing to the limited availability of Japanese models. Outlays for other consumer goods (excluding gasoline) increased about 1/2 percent in nominal terms in both March and April. Purchases of furniture and appliances, which probably are associated with the recovery in housing markets, contributed importantly to these gains.

Total housing starts have retreated in the past two months, but at 1-1/2 million units in April were still 1/4 million units above the fourth-quarter average. Much of the decline occurred as starts of multifamily units dropped back from their unusually strong February

level, but single-family starts also edged down. In general, multi-family building probably is benefiting from the improved profitability of rental units, but the unusual strength early this year also may be traceable to a number of temporary factors facilitating the financing of these units.

In the business sector, the prolonged slide in spending for capital equipment seems to be ending; but nonresidential construction activity is now contracting. Outlays for producers' durable equipment turned up in the first quarter, as business purchases of office and store machinery advanced further and spending for motor vehicles rebounded. New orders for nondefense capital goods also appeared to be firming in the first quarter; although bookings in the volatile aircraft and parts category declined, new orders for other nondefense capital goods rose 3-1/2 percent. In contrast, outlays for industrial structures declined sharply last quarter, and spending for office buildings also turned down.

Wage increases generally remained quite small during early 1983 for workers in most industries and occupations. Wages have been rising at an annual rate of 4 to 5 percent so far this year. Hourly compensation rose at a 6 percent annual rate in the first quarter, boosted in part by the hike in Social Security taxes; but the cyclical rebound in productivity held down the rise in unit labor costs to a 1-1/4 percent annual rate. Over the four quarters ending in the first quarter of 1983, unit labor costs rose at a 3-1/2 percent annual rate.

Both the consumer price and producer price indexes were relatively stable during the opening months of 1983 in large part because steep declines in energy prices offset moderate increases for other items.

Incoming data, however, suggest that consumer prices will show a pickup in April. Apparently retail gasoline prices have risen by at least as much as the five cent per gallon tax introduced on April 1. In addition, prices of raw farm products jumped up, largely because adverse weather curtailed supplies of fresh fruits and vegetables.

Outlook. The staff now estimates that real GNP will rise at a 5-1/2 percent annual rate in the current quarter. The principal factor in the second-quarter increase is an end to inventory liquidation. Real final sales are projected to rise at a modest 1-3/4 percent annual rate. The major drag on current-quarter spending continues to be the decline in net exports. But overall business spending is expected to be weak, as a decline in outlays for nonresidential structures roughly offsets rising equipment purchases. In contrast, consumer expenditures are expected to rise moderately, outlays for residential construction will advance sharply, and federal purchases are projected to be boosted by higher defense spending.

The staff's assumptions about monetary policy are little changed from the March Greenbook. From its February-March base, M2 growth during the remainder of 1983 is anticipated to be around the mid-point of the FOMC's 7-to-10 percent range; in 1984, M2 growth is assumed to average 8 percent. Interest rates are projected to remain near current levels through the end of the forecast period. Although continued favorable wage and price developments should have a positive effect on investor sentiment, present and prospective heavy federal borrowing requirements are seen as holding nominal interest rates high relative to the current trend in inflation.

The staff's fiscal policy assumptions have been revised to reflect developments in the Congressional budget process. It now appears that the reductions in fiscal year 1984 spending programs will be smaller than previously assumed. However, new revenue-raising measures and brighter prospects for the economy are expected to offset most of the higher outlays, and the staff is projecting a budget deficit for fiscal year 1984 of \$201 billion--about the same as in the March Greenbook.

Real GNP is now expected to grow at a 4-3/4 percent annual rate in the second half of 1983 and to remain at about that rate in 1984. Much of the support to the economic expansion in the second half of this year is expected to be generated by consumers, whose purchasing power will be boosted by the combination of rising employment and the final stage of the 1981 tax cut. In 1984 consumer spending is projected to rise at a 3-1/2 percent rate, slightly faster than the increase in real disposable income. The investment sector is expected to contribute more gradually to the recovery, owing to continued high financing costs. Business spending on equipment should expand with rising production, but outlays for nonresidential construction are projected to decline until early 1984 and then to remain flat. In addition, firms are projected to remain relatively cautious in rebuilding inventories. Housing starts are expected to rise a bit from current levels to a 1.85 million unit annual rate by the end of next year. In world markets, rising foreign demand and a declining dollar should begin to boost U.S. export volume by the end of this year and add significantly to growth next year.

The economic recovery is expected to generate relatively slow growth in job opportunities, and the civilian unemployment rate is projected to decline gradually to just below 9 percent by the end of 1984. The considerable slack persisting in labor markets over the next year and a half should help damp wage increases, but the hike in Social Security taxes in 1984 will add 1/2 percentage point to the rate of rise in hourly compensation. Businesses are expected to attempt to achieve further gains in labor productivity to reduce costs and boost profits, and unit labor costs are projected to rise at a 1-1/4 percent rate during 1983 and at a 3-1/4 percent rate during 1984.

In the current quarter, prices are expected to rebound somewhat, owing to higher gasoline and food prices. But, the combination of slowly rising labor costs and the relatively moderate firming in demand is expected to allow some further reduction in inflation over the projection period. In 1984, the downward drift in the rate of price increase will be tempered by the impact of the projected depreciation of the dollar on import prices. The gross domestic business product fixed-weighted price index is projected to decelerate to a 3-3/4 percent annual rate by the end of this year and remain close to that rate in 1984.

Detailed data for these projections are shown in the tables that follow.

May 18, 1983

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
3/23/83	5/18/83	3/23/83	5/18/83	3/23/83	5/18/83	3/23/83	5/18/83	3/23/83	5/18/83	
Annual changes:										
1981 <1>	11.6	11.6	1.9	1.9	9.6	9.6	9.4	9.4	7.6	7.6
1982 <1>	4.1	4.1	-1.7	-1.7	5.9	5.9	6.9	6.9	9.7	9.7
1983	6.6	7.1	2.5	2.7	3.9	4.1	4.6	4.9	10.3	10.0
1984	8.0	8.2	4.4	4.8	3.8	3.9	3.7	3.8	9.5	9.3
Quarterly changes:										
1982 Q1 <1>	-1.0	-1.0	-5.1	-5.1	4.4	4.4	5.3	5.3	8.8	8.8
Q2 <1>	6.8	6.8	2.1	2.1	3.8	3.8	5.9	5.9	9.4	9.4
Q3 <1>	5.8	5.8	.7	.7	5.9	5.9	5.2	5.2	10.0	10.0
Q4 <1>	2.6	2.6	-1.1	-1.1	4.3	4.3	4.7	4.7	10.7	10.7
1983 Q1 <1>	8.1	9.1	4.1	3.1	2.7	2.8	4.5	5.3	10.4	10.3
Q2	8.2	8.9	3.5	5.5	3.7	4.5	4.9	4.7	10.5	10.1
Q3	7.6	8.1	4.5	4.8	4.0	4.2	3.9	4.1	10.3	9.8
Q4	7.8	8.3	4.4	5.0	3.9	3.8	3.6	3.6	10.2	9.7
1984 Q1	8.0	7.9	4.4	4.7	3.8	3.7	3.6	3.6	9.9	9.6
Q2	7.9	8.1	4.3	4.6	3.7	3.8	3.6	3.7	9.6	9.4
Q3	8.4	8.4	4.8	4.8	3.7	3.8	3.6	3.7	9.4	9.1
Q4	8.9	9.0	5.0	4.9	3.6	3.8	3.5	3.7	9.1	8.9
Two-quarter changes: <2>										
1982 Q2 <1>	2.8	2.8	-1.6	-1.6	4.2	4.2	5.6	5.6	1.1	1.1
Q4 <1>	4.2	4.2	-.2	-.2	5.1	5.1	5.0	5.0	1.3	1.3
1983 Q2	8.2	9.0	3.8	4.3	3.2	3.7	4.7	5.0	-.2	-.6
Q4	7.7	8.2	4.5	4.9	3.9	4.0	3.7	3.8	-.3	-.4
1984 Q2	7.9	8.0	4.4	4.6	3.7	3.7	3.6	3.7	-.6	-.3
Q4	8.6	8.7	4.9	4.9	3.6	3.8	3.6	3.7	-.5	-.5
Four-quarter changes: <3>										
1981 Q4 <1>	9.6	9.6	.7	.7	8.9	8.9	9.3	9.3	.9	.9
1982 Q4 <1>	3.5	3.5	-.9	-.9	4.7	4.7	5.3	5.3	2.4	2.4
1983 Q4	7.9	8.6	4.1	4.6	3.6	3.8	4.2	4.4	-.5	-1.0
1984 Q4	8.3	8.4	4.6	4.7	3.7	3.8	3.6	3.7	-1.1	-.8

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

MAY 18, 1983

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2864.9	2901.8	2980.9	3003.2	2995.5	3045.2	3088.2	3108.2
Final purchases	2852.7	2877.2	2949.1	2989.9	3031.1	3061.4	3083.5	3156.5
Private	2274.6	2294.0	2348.9	2363.6	2401.0	2430.5	2431.8	2479.7
Excluding net exports	2243.4	2270.3	2323.0	2340.1	2369.7	2395.6	2424.9	2470.6
Personal consumption expenditures	1799.9	1819.4	1868.8	1884.5	1919.4	1947.8	1986.3	2030.8
Goods	957.5	960.0	982.5	976.1	987.0	995.7	1008.7	1027.5
Services	842.4	859.4	886.3	908.3	932.4	952.1	977.6	1003.3
Gross private domestic investment	455.7	475.5	486.0	468.9	414.8	431.5	443.3	391.5
Residential structures	113.6	109.5	101.2	95.5	93.4	95.5	94.3	101.4
Business fixed investment	330.0	341.3	353.0	360.2	357.0	352.2	344.2	338.4
Change in business inventories	12.2	24.6	31.8	13.2	-35.6	-16.2	4.7	-48.3
Nonfarm	10.0	19.3	24.6	6.0	-36.0	-15.0	3.7	-50.0
Net exports of goods and services <1>	31.2	23.7	25.9	23.5	31.3	34.9	6.9	9.1
Exports	365.4	368.9	367.2	367.9	359.9	365.8	349.5	328.1
Imports	334.2	345.1	341.3	344.4	328.6	330.9	342.5	319.1
Gov't. purchases of goods and services	578.1	583.2	600.2	626.3	630.1	630.9	651.7	676.8
Federal <2>	217.0	218.2	230.0	250.5	249.7	244.3	259.0	278.7
State and local	361.1	365.0	370.1	375.7	380.4	386.6	392.7	398.0
Gross national product in constant (1972) dollars	1507.8	1502.2	1510.4	1490.1	1470.7	1478.4	1481.1	1477.2
Personal income	2330.0	2380.6	2458.2	2494.6	2510.5	2552.7	2592.5	2624.0
Wage and salary disbursements	1452.8	1479.4	1512.3	1531.2	1541.6	1556.6	1570.0	1574.5
Disposable personal income	1958.7	1996.5	2060.0	2101.4	2117.1	2151.5	2198.1	2224.3
Saving rate (percent)	5.4	6.1	6.5	7.5	6.6	6.7	6.9	6.0
Corporate profits with I.V.A. and C.C. Adj.	200.3	185.1	193.1	183.9	157.1	155.4	166.2	164.6
Corporate profits before tax	253.1	225.4	233.3	216.5	171.6	171.7	180.3	175.9
Federal government surplus or deficit (-) (N.I.A. basis)	-39.7	-40.5	-58.0	-101.7	-118.4	-119.6	-156.0	-204.2
High employment surplus or deficit (-) <3>	10.4	22.0	5.9	-20.3	-15.6	-6.2	-32.7	-64.5
State and local government surplus or deficit(-) (N.I.A. basis)	31.3	32.9	33.5	29.1	27.7	32.1	32.3	36.4
Excluding social insurance funds	1.1	1.7	1.2	-4.2	-6.8	-3.6	-4.5	-1.6
Civilian labor force (millions)	108.2	108.8	108.6	109.1	109.3	110.1	110.6	111.0
Unemployment rate (percent)	7.4	7.4	7.4	8.3	8.8	9.4	10.0	10.7
Nonfarm payroll employment (millions)	90.9	91.2	91.4	91.0	90.4	90.0	89.4	88.7
Manufacturing	20.2	20.3	20.3	19.9	19.4	19.1	18.7	18.2
Industrial production (1967=100)	151.8	152.5	153.0	146.3	141.7	139.4	138.2	135.2
Capacity utilization: all manufacturing (percent)	79.9	79.8	79.2	74.8	71.6	70.3	69.7	67.6
Materials (percent)	82.2	81.2	81.2	75.2	72.0	69.6	68.1	65.8
Housing starts, private (million units, A.R.)	1.39	1.18	.96	.87	.90	.95	1.12	1.26
New auto sales (millions, A.R.)	9.96	7.89	9.04	7.36	8.12	7.53	7.78	8.57
Domestic models	7.31	5.63	6.90	5.13	5.90	5.53	5.56	6.08
Foreign models	2.66	2.25	2.14	2.23	2.22	1.99	2.22	2.49

<1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

<3> Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$43.5 billion in 1981-Q4, and a deficit of \$89.5 billion in 1982-Q4.

CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	7.9	-1.5	2.2	-5.3	-5.1	2.1	.7	-1.1
Final purchases	5.4	-4.0	1.0	-2.3	.2	-9	-1.3	5.4
Private	5.5	-4.0	.4	-4.4	1.0	.2	-3.5	3.9
Excluding net exports	4.7	-2.8	2.2	-3.6	.9	.6	-9	4.1
Personal consumption expenditures	4.4	-2.7	2.9	-3.3	2.5	2.5	.6	4.5
Goods	6.9	-5.1	4.0	-6.2	2.0	2.5	-4	6.6
Services	1.5	.1	1.7	.0	3.0	2.4	1.7	2.3
Gross private domestic investment	25.0	14.9	6.9	-22.6	-36.5	15.0	7.9	-37.3
Residential structures	1.0	-17.4	-31.9	-25.3	-10.2	12.9	-5.3	39.3
Business fixed investment	8.0	1.1	9.3	.6	-5.0	-11.8	-7.6	-6.0
Gov't. purchases of goods and services	5.2	-4.1	3.6	7.0	-2.9	-5.3	8.4	12.0
Federal	12.2	-3.2	14.8	20.4	-5.5	-13.5	23.1	32.8
National defense	8.0	11.5	7.6	10.1	-7.9	21.4	13.0	2.0
State and local	1.3	-4.6	-2.7	-8	-1.1	.4	-2	-4
Disposable personal income	3.7	.6	4.8	1.2	-1.9	3.1	1.3	.3
<u>Current Dollars</u>								
Gross national product	19.6	5.3	11.4	3.0	-1.0	6.8	5.8	2.6
Final purchases	14.6	3.5	10.4	5.7	5.6	4.1	2.9	9.8
Private	14.8	3.5	9.9	2.5	6.5	5.0	.2	8.1
Excluding net exports	13.4	4.9	9.6	3.0	5.2	4.4	5.0	7.8
Personal consumption expenditures	13.0	4.4	11.3	3.4	7.6	6.1	8.1	9.3
Goods	14.7	1.0	9.7	-2.6	4.5	3.6	5.3	7.7
Services	11.1	8.3	13.2	10.3	11.0	8.7	11.2	11.0
Gross private domestic investment	52.2	18.5	9.2	-13.3	-38.8	17.2	11.4	-39.1
Residential structures	11.5	-13.4	-27.0	-20.8	-8.4	9.4	-4.9	33.6
Business fixed investment	16.7	14.5	14.3	8.4	-3.5	-5.3	-8.7	-6.6
Gov't. purchases of goods and services	13.7	3.6	12.2	18.6	2.4	.6	13.8	16.3
Federal	20.9	2.2	23.5	40.7	-1.4	-8.3	26.3	34.2
National defense	15.4	22.1	10.8	36.7	-1.8	26.4	15.6	15.4
State and local	9.7	4.4	5.7	6.2	5.0	6.7	6.5	5.5
Disposable personal income	12.3	7.9	13.4	8.3	3.0	6.7	8.9	4.9
Personal income	13.0	9.0	13.7	6.1	2.6	6.9	6.4	4.9
Wage and salary disbursements	12.0	7.5	9.2	5.1	2.7	3.9	3.5	1.2
Corporate profits with I.V.A. and C.C. Adj.	49.3	-27.1	18.4	-17.7	-46.7	-4.3	30.8	-3.8
Corporate profits before tax	12.2	-37.1	14.8	-25.8	-60.5	.2	21.6	-9.4
Nonfarm payroll employment	1.8	1.0	.8	-1.8	-2.4	-1.7	-2.9	-2.8
Manufacturing	1.3	2.8	.1	-8.1	-9.0	-7.2	-7.8	-9.8
Nonfarm business sector								
Output per hour	4.9	-1.2	-.3	-3.4	.7	.9	3.4	.4
Compensation per hour	11.9	7.2	9.0	7.4	7.9	6.0	6.6	5.5
Unit labor costs	6.6	8.4	9.4	11.2	7.2	5.1	3.1	5.1
GNP implicit deflator <1>	10.9	6.8	9.0	8.8	4.3	4.6	5.0	3.7
Gross domestic business product fixed-weighted price index <2>	10.4	8.6	9.3	7.4	4.4	3.8	5.9	4.3
Excluding food and energy	8.4	9.4	11.0	8.6	5.3	5.9	5.2	4.7
Consumer price index (all urban)	10.5	8.5	12.1	7.1	3.0	5.3	7.7	1.9
Industrial production	8.4	1.9	1.4	-16.6	-11.8	-6.5	-3.4	-8.2

<1> Excluding Federal pay increases, rates of change were: 1981-Q1, 10.8 percent; 1981-Q4, 7.8 percent; 1982-Q1, 4.2 percent; 1982-Q4, 3.3 percent.

<2> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1983				-Projected-			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3176.7	3245.1	3308.5	3375.0	3440.0	3507.8	3579.4	3657.7
Final purchases	3205.2	3242.6	3290.0	3340.0	3409.0	3478.8	3550.4	3625.9
Private	2529.7	2556.4	2591.5	2635.5	2683.6	2737.9	2796.0	2854.8
Excluding net exports	2513.1	2562.0	2617.1	2671.1	2722.5	2776.7	2832.1	2888.3
Personal consumption expenditures	2054.0	2092.3	2139.0	2183.5	2224.0	2265.0	2306.5	2349.0
Goods	1032.8	1049.8	1073.0	1094.5	1112.5	1131.5	1150.0	1169.5
Services	1021.2	1042.5	1066.0	1089.0	1111.5	1133.5	1156.5	1179.5
Gross private domestic investment	430.6	472.2	496.6	522.6	529.5	540.7	554.6	571.1
Residential structures	119.9	129.4	133.9	138.4	142.9	146.9	150.9	154.4
Business fixed investment	339.3	340.3	344.2	349.2	355.6	364.8	374.7	384.9
Change in business inventories	-28.5	2.5	18.5	35.0	31.0	29.0	29.0	31.8
Nonfarm	-26.6	2.5	17.5	27.0	30.0	33.0	34.0	36.8
Net exports of goods and services <1>	16.6	-5.6	-25.6	-35.6	-38.9	-38.8	-36.1	-33.5
Exports	330.2	328.3	330.1	337.8	347.7	362.2	378.4	395.6
Imports	313.6	333.9	355.7	373.3	386.6	400.9	414.6	429.2
Gov't. purchases of goods and services	675.5	686.2	698.5	704.5	725.4	740.9	754.4	771.1
Federal <2>	271.9	276.6	282.5	282.2	296.6	305.9	313.3	323.9
State and local	403.6	409.6	416.0	422.3	428.8	435.0	441.1	447.2
Gross national product in constant (1972) dollars	1488.5	1508.4	1526.2	1544.8	1562.6	1580.2	1598.9	1618.1
Personal income	2648.3	2703.8	2758.5	2817.7	2854.6	2903.7	2957.0	3014.4
Wage and salary disbursements	1597.8	1633.2	1663.7	1694.3	1723.8	1755.0	1786.2	1823.9
Disposable personal income	2247.0	2293.9	2352.3	2401.2	2435.9	2477.4	2521.7	2569.4
Saving rate (percent)	5.9	6.1	6.4	6.4	6.0	5.9	5.9	5.9
Corporate profits with I.V.A. and C.C. Adj.	184.2	192.7	202.7	214.8	216.1	223.4	238.0	253.5
Corporate profits before tax	177.8	182.1	188.4	197.8	195.1	198.4	209.2	221.0
Federal government surplus or deficit (-) (N.I.A. basis)	-172.5	-172.4	-192.9	-197.6	-191.3	-189.5	-190.0	-193.3
High employment surplus or deficit (-) <3>	-30.5	-29.4	-53.3	-59.6	-53.6	-54.6	-58.1	-64.7
State and local government surplus or deficit (-) (N.I.A. basis)	40.6	44.5	47.2	50.2	49.9	51.0	52.5	54.4
Excluding social insurance funds	1.3	3.7	4.8	6.2	4.1	3.6	3.4	3.6
Civilian labor force (millions)	110.5	111.2	111.6	112.1	112.6	113.2	113.6	114.1
Unemployment rate (percent)	10.3	10.1	9.8	9.7	9.6	9.4	9.1	8.9
Nonfarm payroll employment (millions)	88.9	89.4	90.1	90.7	91.3	92.0	92.8	93.6
Manufacturing	18.2	18.5	18.9	19.2	19.5	19.8	20.1	20.5
Industrial production (1967=100)	138.4	144.1	147.4	150.3	153.3	156.3	159.6	162.6
Capacity utilization: all manufacturing (percent)	69.1	71.5	72.8	73.8	74.8	75.8	76.9	77.8
Materials (percent)	68.3	71.5	73.5	75.2	76.9	78.5	80.2	81.6
Housing starts, private (million units, A.R.)	1.70	1.55	1.60	1.65	1.70	1.75	1.80	1.85
New auto sales (millions, A.R.)	8.44	8.70	9.20	9.50	9.50	9.40	9.80	10.00
Domestic models	6.06	6.50	6.80	7.00	7.10	7.20	7.40	7.50
Foreign models	2.38	2.20	2.40	2.50	2.40	2.20	2.40	2.50

<1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

<3> Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$87.4 billion in 1983-Q4, and a deficit of \$96.7 billion in 1984-Q4.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	Projected							
	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	3.1	5.5	4.8	5.0	4.7	4.6	4.8	4.9
Final purchases	.9	1.7	2.8	2.9	5.2	4.9	4.9	4.6
Private	3.5	1.7	2.9	4.4	4.4	4.7	5.1	5.1
Excluding net exports	4.7	3.7	4.6	4.3	3.8	4.2	4.0	4.0
Personal consumption expenditures	2.3	3.1	4.7	4.1	3.3	3.4	3.2	3.3
Goods	3.1	2.8	5.4	4.4	3.2	3.6	3.1	3.4
Services	1.4	3.4	3.8	3.8	3.5	3.2	3.2	3.1
Gross private domestic investment	39.7	38.2	18.7	19.2	2.5	5.5	7.6	9.4
Residential structures	83.1	30.7	10.3	9.6	9.1	7.1	6.5	4.7
Business fixed investment	2.7	-5	2.2	3.4	5.1	7.8	8.5	8.6
Gov't. purchases of goods and services	-8.9	1.8	2.3	-3.1	8.9	5.5	3.8	2.4
Federal	-21.1	3.2	3.9	-9.2	20.6	11.5	7.1	3.8
National defense	.4	18.1	13.8	7.9	7.0	6.3	4.8	5.3
State and local	.7	1.0	1.2	1.3	1.7	1.5	1.5	1.4
Disposable personal income	1.8	4.0	5.9	4.1	1.7	2.8	3.0	3.5
<u>Current Dollars</u>								
Gross national product	9.1	8.9	8.1	8.3	7.9	8.1	8.4	9.0
Final purchases	6.3	4.7	6.0	6.2	8.5	8.5	8.5	8.8
Private	8.3	4.3	5.6	7.0	7.5	8.4	8.8	8.7
Excluding net exports	7.1	8.0	8.9	8.5	7.9	8.2	8.2	8.2
Personal consumption expenditures	4.6	7.7	9.2	8.6	7.6	7.6	7.5	7.6
Goods	2.1	6.7	9.1	8.3	6.7	7.0	6.7	7.0
Services	7.3	8.6	9.3	8.9	8.5	8.2	8.4	8.2
Gross private domestic investment	46.3	44.6	22.3	22.6	5.4	8.7	10.7	12.4
Residential structures	95.0	35.8	14.7	14.1	13.7	11.7	11.3	9.6
Business fixed investment	1.0	1.2	4.7	5.9	7.5	10.8	11.3	11.3
Gov't. purchases of goods and services	-8	6.5	7.4	3.5	12.4	8.8	7.5	9.2
Federal	-9.4	7.1	8.8	-4	22.0	13.1	10.0	14.2
National defense	4.9	22.6	18.4	15.5	11.3	9.2	8.7	15.6
State and local	5.7	6.1	6.4	6.2	6.3	5.9	5.7	5.6
Disposable personal income	4.1	8.6	10.6	8.6	5.9	7.0	7.4	7.8
Personal income	3.8	8.6	8.4	8.9	5.3	7.1	7.5	8.0
Wage and salary disbursements	6.1	9.2	7.7	7.6	7.1	7.4	7.3	8.7
Corporate profits with I.V.A. and C.C. Adj.	56.8	19.8	22.3	26.1	2.5	14.1	28.9	28.7
Corporate profits before tax	4.4	10.0	14.5	21.5	-5.3	6.8	23.7	24.5
Nonfarm payroll employment	.7	2.6	2.9	2.6	2.8	3.3	3.3	3.4
Manufacturing	.5	6.8	7.2	6.9	6.7	6.6	6.9	6.5
Nonfarm business sector								
Output per hour	4.8	3.7	3.0	2.9	1.8	1.2	1.0	1.3
Compensation per hour	6.1	4.6	4.4	4.2	6.1	4.1	4.2	4.2
Unit labor costs	1.3	.9	1.4	1.3	4.2	2.9	3.2	2.9
GNP implicit deflator <1>	5.8	3.2	3.1	3.2	3.1	3.4	3.4	4.0
Gross domestic business product								
fixed-weighted price index <2>	2.8	4.5	4.2	3.8	3.7	3.8	3.8	3.8
Excluding food and energy	5.3	4.7	4.1	3.6	3.6	3.7	3.7	3.7
Consumer price index (all urban)	-4	5.3	4.6	4.3	4.3	4.2	4.0	4.0
Industrial production	9.7	17.5	9.5	8.1	8.2	8.1	8.7	7.7

<1> Excluding Federal pay increases, the rates of change are: 1983-Q1, 5.8 percent; 1983-Q4, 2.9 percent; 1984-Q1, 3.0 percent; 1984-Q4, 3.4 percent.

<2> Uses expenditures in 1972 as weights.

May 18, 1983

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1977	1978	1979	1980	1981	1982	---Projected---	
							1983	1984
Gross national product	1918.3	2163.9	2417.8	2633.1	2937.7	3059.3	3276.3	3546.2
Final purchases	1895.3	2137.4	2403.5	2643.1	2917.3	3083.1	3269.5	3516.0
Private	1501.5	1705.5	1929.1	2104.7	2320.4	2435.7	2578.3	2768.1
Excluding net exports	1505.5	1706.6	1915.9	2079.5	2294.3	2415.2	2590.8	2804.9
Personal consumption expenditures	1204.4	1346.5	1507.2	1667.2	1843.2	1971.1	2117.2	2286.1
Goods	657.0	728.5	813.5	884.7	969.1	1004.8	1062.5	1140.9
Services	547.4	618.0	693.7	782.5	874.1	966.3	1054.7	1145.2
Gross private domestic investment	324.1	386.6	423.0	402.3	471.5	420.3	480.5	549.0
Residential construction	95.8	111.2	118.6	103.2	104.9	96.2	130.4	148.8
Business fixed investment	205.2	248.9	290.2	309.2	346.1	348.0	343.2	370.0
Change in business inventories	23.0	26.5	14.3	-10.0	20.5	-23.8	6.9	30.2
Nonfarm	21.9	25.4	8.6	-5.7	15.0	-24.3	5.1	33.5
Net exports of goods and services <1>	-4.0	-1.1	13.2	25.2	26.1	20.5	-12.5	-36.8
Exports	182.7	218.7	281.4	339.2	367.3	350.8	331.6	371.0
Imports	186.7	219.8	268.1	314.0	341.3	330.3	344.1	407.8
Gov't. purchases of goods and services	393.8	431.9	474.4	538.4	596.9	647.4	691.2	747.9
Federal <2>	143.4	153.6	168.3	197.2	228.9	257.9	278.3	309.9
State and local	250.4	278.3	306.0	341.2	368.0	389.4	412.9	438.0
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1474.0	1502.6	1476.9	1517.0	1590.0
Personal income	1540.4	1732.7	1951.2	2160.4	2415.8	2569.9	2732.1	2932.4
Wage and salary disbursements	983.2	1106.3	1237.6	1356.1	1493.9	1560.7	1647.2	1772.2
Disposable personal income	1314.0	1474.0	1650.2	1824.1	2029.1	2172.7	2323.6	2501.1
Saving rate (percent)	5.9	6.1	5.9	5.8	6.4	6.5	6.2	5.9
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	181.6	190.6	160.8	198.6	232.8
Corporate profits before tax	194.7	229.1	252.7	242.4	232.1	174.9	186.5	205.9
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.4	-60.0	-149.5	-183.9	-191.0
High employment surplus or deficit(-)	-20.5	-16.0	-2.0	-17.1	4.5	-29.7	-43.2	-57.8
State and local government surplus or deficit (-) (N.I.A. basis)	28.0	30.3	30.4	28.1	31.7	32.1	45.6	52.0
Excluding social insurance funds	10.1	10.0	6.6	.9	-1	-4.1	4.0	3.7
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.4	113.4
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	10.0	9.3
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.1	89.6	89.8	92.4
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.8	18.7	20.0
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	145.0	157.9
Capacity utilization: all manufacturing (percent)	81.9	84.4	85.6	79.1	78.4	69.8	71.8	76.3
Materials (percent)	82.7	85.6	87.4	80.0	79.9	68.9	72.1	79.3
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.63	1.78
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	8.96	9.68
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.59	7.30
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.37	2.38

<1> Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
<u>Constant (1972) Dollars</u>								
Gross national product	5.5	5.0	2.8	-.4	1.9	-1.7	2.7	4.8
Final purchases	5.1	4.9	3.5	.5	1.0	-.5	1.9	4.1
Private	6.0	5.6	4.0	.0	1.0	-1.0	2.1	4.3
Excluding net exports	6.5	5.5	2.9	-1.1	1.8	-.1	3.4	4.1
Personal consumption expenditures	5.0	4.5	2.7	.3	1.8	1.0	3.1	3.6
Goods	5.1	4.2	1.9	-1.5	1.9	.3	3.6	3.8
Services	4.9	4.8	3.7	2.4	1.7	1.8	2.5	3.5
Gross private domestic investment	16.1	10.5	-.2	-11.8	8.3	-12.8	11.4	11.0
Residential structures	18.6	2.8	-5.3	-20.1	-4.9	-10.2	32.7	9.5
Business fixed investment	11.7	12.8	7.3	-2.2	3.6	-3.7	-1.8	5.2
Gov't. purchases of goods and services	1.5	2.0	1.3	2.3	.9	1.5	.9	3.6
Federal	3.7	-.1	1.8	4.3	3.7	5.4	1.4	6.9
National defense	.8	.4	2.6	4.0	4.9	6.9	8.8	8.1
State and local	.2	3.3	1.1	1.1	-.8	-1.0	.5	1.4
Disposable personal income	4.0	4.9	2.7	.2	2.5	1.1	2.6	3.3
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.9	11.6	4.1	7.1	8.2
Final purchases	11.1	12.8	12.4	10.0	10.4	5.7	6.0	7.5
Private	11.7	13.6	13.1	9.1	10.2	5.0	5.9	7.4
Excluding net exports	13.2	13.4	12.3	8.5	10.3	5.3	7.3	8.3
Personal consumption expenditures	11.1	11.8	11.9	10.6	10.6	6.9	7.4	8.0
Goods	9.8	10.9	11.7	8.8	9.5	3.7	5.7	7.4
Services	12.7	12.9	12.2	12.8	11.7	10.5	9.1	8.6
Gross private domestic investment	25.7	19.3	9.4	-4.9	17.2	-10.9	14.3	14.2
Residential structures	33.1	16.1	6.6	-13.0	1.7	-8.3	35.6	14.1
Business fixed investment	17.9	21.3	16.6	6.5	12.0	.5	-1.4	7.8
Gov't. purchases of goods and services	8.8	9.7	9.8	13.5	10.9	8.5	6.8	8.2
Federal	11.0	7.1	9.6	17.1	16.1	12.6	7.9	11.4
National defense	8.0	8.0	11.5	17.5	17.0	16.2	15.0	13.1
State and local	7.5	11.2	9.9	11.5	7.9	5.8	6.0	6.1
Disposable personal income	10.0	12.2	12.0	10.5	11.2	7.1	6.9	7.6
Personal income	10.7	12.5	12.6	10.7	11.8	6.4	6.3	7.3
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.2	4.5	5.5	7.6
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-6.8	5.0	-15.6	23.5	17.2
Corporate profits before tax	17.1	17.7	10.3	-4.0	-4.3	-24.6	6.7	10.4
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.6	.2	3.0
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.6	-.8	6.8
Nonfarm business sector								
Output per hour	2.2	.6	-1.3	-.9	1.4	.0	3.0	2.0
Compensation per hour	7.5	8.6	9.3	10.2	9.7	7.2	5.4	4.7
Unit labor costs	5.2	8.0	10.7	11.2	8.1	7.2	2.4	2.6
GNP implicit deflator	5.8	7.4	8.6	9.3	9.4	6.0	4.2	3.3
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.1	9.6	5.9	4.1	3.9
Excluding food and energy	6.3	7.8	8.6	8.6	9.4	6.9	4.9	3.8
Consumer price index (all urban)	6.5	7.7	11.3	13.5	10.3	6.2	3.4	4.3
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.1	4.6	8.9

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS

May 18, 1983

	Fiscal Year 1982*	FY1983e		FY1984e		CY1983e/ FY1984e		FRB Staff Estimates Calendar quarters; unadjusted data								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board	CY 1982*	F.R. Board	1982			1983			1984		
								IV*	I*	II	III	IV	I	II	III	
Unified budget receipts	617.8	598.3	601.0	653.7	657.4	608.8	608.4	137.0	139.8	170.9	153.2	144.4	154.2	187.0	171.8	
Unified budget outlays	728.4	808.5	805.0	843.9	858.0	739.5	810.5	205.3	200.8	195.7	203.2	210.8	213.3	217.7	216.2	
Surplus/deficit(-), unified budget	-110.6	-210.2	-204.0	-190.2	-200.6	-130.7	-202.2	-68.3	-61.0	-24.9	-50.0	-66.4	-59.1	-30.6	-44.5	
Surplus/deficit(-), off-budget agencies ²	-17.3	-16.8	-15.0	-14.4	-15.1	-14.9	-16.2	-1.1	-1.6	-4.8	-7.4	-2.4	-3.3	-4.3	-5.0	
Combined deficit to be financed	-127.9	-227.0	-219.0	-204.7	-215.7	-145.6	-218.4	-69.4	-62.6	-29.7	-57.4	-68.8	-62.4	-35.0	-49.5	
Means of financing combined deficit:																
Net borrowing from public	134.9	217.0	214.1	204.0	211.5	161.3	206.0	62.0	55.6	38.2	58.3	53.9	63.0	44.0	50.6	
Decrease in cash operating balance	-10.7	9.4	8.5	0.0	0.4	-7.8	7.3	9.6	4.3	-10.0	4.6	8.4	2.5	-5.3	-5.2	
Other ³	3.8	0.6	-3.6	-0.7	3.8	-7.9	5.1	-2.2	2.6	1.5	-5.5	6.5	-3.1	-3.8	4.2	
Cash operating balance, end of period	29.4	20.0	20.9	20.0	20.5	19.8	12.5	19.8	15.5	25.5	20.9	12.5	10.0	15.3	20.5	
Memo: Sponsored agency borrowing ⁴	20.3	n.a.	-2.5	n.a.	19.0	16.9	0.9	-0.4	-3.8	-0.8	2.5	3.0	4.0	6.0	6.0	
NIA Budget								Seasonally adjusted annual rates								
Receipts	619.0	631.2	634.3	682.3	690.7	613.9	645.6	615.0	629.6	647.0	645.5	660.2	686.4	699.9	716.4	
Expenditures	739.7	829.1	819.8	869.6	882.8	763.4	829.4	819.2	802.1	819.4	838.4	857.8	877.7	889.4	906.4	
Purchases	250.1	280.6	277.4	297.0	299.5	257.9	278.3	278.7	271.9	276.6	282.5	282.2	296.6	305.9	313.3	
Defense	173.0	199.3	198.2	229.2	226.1	178.6	205.4	189.3	191.6	201.6	210.3	218.0	223.9	228.9	233.7	
Nondefense	77.1	81.3	79.2	67.8	73.4	79.3	72.9	89.4	80.3	75.0	72.2	64.2	72.7	77.0	79.6	
All other expenditures	489.6	548.5	542.4	572.6	583.3	505.5	551.1	540.5	530.2	542.8	555.9	575.6	581.1	583.5	593.1	
Surplus/deficit(-)	-120.7	-197.9	-185.5	-187.6	-192.1	-149.5	-183.9	-204.2	-172.5	-172.4	-192.9	-197.6	-191.3	-189.5	-190.0	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:																
5.0 percent	-18.7	n.a.	-44.4	n.a.	-56.5	-29.7	-43.2	-64.5	-30.5	-29.4	-53.3	-59.6	-53.6	-54.6	-58.1	
6.0 percent	-43.0	n.a.	-70.3	n.a.	-85.8	-54.5	-69.7	-89.5	-55.7	-55.8	-80.2	-87.4	-82.5	-84.4	-89.0	

*--actual

e--estimated

n.a.--not available

1. OMB Current Budget Estimates, April 1983 and NIA NIA translations, April 1983.
2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.
3. Checks issued less checks paid, accrued items and other transactions.

4. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

DOMESTIC FINANCIAL DEVELOPMENTS

Recent developments. The decline in market interest rates after the late-March FOMC meeting has been partly retraced recently as optimism regarding a discount rate cut has waned with the publication of stronger than expected money and economic data. Even so, short-term market interest rates have fallen 35 to 65 basis points and bond yields have declined 10 to 45 basis points on balance over the intermeeting period.

M1 registered a sharp break from trend in April, contracting at a 3 percent annual rate after growing at a 14 percent annual rate over the previous eight months. Both demand deposits and other checkable deposits declined; Super NOWs edged above \$30 billion before dipping below that level after the April tax date. M2 growth, at 3 percent, was depressed not only by the M1 decline but also by outflows to IRA/Keogh accounts, which are excluded from monetary measures, and by a continued slackening of MMDA expansion. The 4-1/2 percent expansion of M3 in April was supported by a resurgence of overall large CD issuance; although runoffs of CDs ceased at commercial banks, thrift offerings were robust for the second straight month as these institutions again repaid FHLB advances despite heavy mortgage activity. Incoming data for May, however, suggest a sizable rebound in M1 growth, accompanied by a weaker acceleration in M2. The May strength in M1, as the April weakness, could reflect in part the inherent difficulties of seasonally adjusting the highly volatile movements of this aggregate in the spring months.

Bank credit expansion in April eased from the advanced March pace. Acquisitions of Treasury securities continued to be large, but loan demand at banks weakened appreciably, with the 4 percent growth in total loans

less than half the rate recorded in the previous month. While real estate and security lending displayed continued strength, the slowdown resulted from some diminution in consumer lending from the rapid March pace and a sharp decline in business loans outstanding.

Businesses also ran off commercial paper in April as they continued to refund short-term liabilities through substantial issuance of long-term debt and equity. On balance, net funds raised so far this year by nonfinancial corporations have increased, but with no parallel movement in the financing gap, the additional proceeds apparently were used to build up liquid assets.

Households have sharply raised their total borrowing. Consumer installment credit accelerated to a 7 percent annual rate of growth in the first quarter, and a first-quarter surge in mortgage lending nourished the pickup in housing activity. Mortgage commitments outstanding at S&Ls reached a record level at the end of March. Huge volumes of loans continue to be transformed into securities through the auspices of GNMA, FNMA, and FHLMC.

The Treasury's appetite for credit remains Brobdingnagian. After borrowing \$56 billion (nsa) in the first quarter, the Treasury by mid-May had already raised \$22 billion in new funds through coupon issues. In the bill sector, however, seasonal runoffs of cash management bills had somewhat more than offset the new money raised in the regular cycles of 3-month, 6-month and 1-year bills. Municipal bond offerings have continued extraordinarily strong, but were readily digested without relative rate pressure.

The growth of overall domestic nonfinancial debt during the first quarter is estimated at 9-1/2 percent, at an annual rate, up a little from

the pace of the fourth quarter of last year. The preliminary estimate for April suggests little change in the growth of this credit aggregate.

Outlook. The staff anticipates that interest rates will vary around present levels into the summer months, with the markets likely showing continued sensitivity to incoming monetary and economic data. At prevailing interest rates, growth of domestic nonfinancial debt is expected to maintain about its recent pace into the summer, with the federal government remaining the dominant borrower. State and local units probably will borrow somewhat less heavily than over the recent period. As in the past couple of quarters, a large portion of the funds raised will be reinvested in debt instruments, including Treasury securities.

Businesses are likely to continue to restructure balance sheets. Internal funds generation should be strong enough to finance the bulk of outlays for inventories and fixed capital, so that the proceeds of hefty bond and stock offerings probably will be sufficient to preclude any substantial short-term borrowing at commercial banks.

Households may step up their borrowing a bit further. With purchases of consumer durables projected to be on the upswing in the second and third quarters, banks and other suppliers of consumer installment credit can be expected to expand their consumer lending more rapidly. Given the staff's expectation that housing starts will remain near recent levels, net mortgage credit flows are likely to remain large but should not continue the steep climb that has characterized the past few months; refinancing activity probably will be a significant factor boosting loan originations.

INTERNATIONAL DEVELOPMENTS

Recent developments. The weighted average value of the dollar has remained in a fairly narrow band and is essentially unchanged since the last FOMC meeting. With respect to individual currencies the dollar depreciated against sterling, the yen and the Swiss franc, but these declines were offset by appreciations against the mark and other EMS currencies, which appeared to be affected by political and social unrest in Poland and France.

The appreciation of the pound against the dollar by about seven percent -- which reversed the previous sharp depreciation of sterling -- was associated with developments in the world oil market and in the United Kingdom's political situation. In mid-March, OPEC reached a formal agreement on a \$29 per barrel contract price for Saudi Arabian light crude. This agreement on prices was accompanied by a 17.5 mbd OPEC output ceiling. In late March, the British National Oil Corporation reduced the price of its crude oil by 50 cents/barrel to \$30 per barrel, thereby alleviating fears of retaliatory price reductions by Nigeria, which produces oil of a similar quality. Since these announcements at the end of March, spot petroleum prices have firmed. The stabilization in the world oil market has enhanced the U.K. current account position. In addition, since the last FOMC meeting prospects for an early election, which is viewed as favorable to the Thatcher government, increased. In early May, Prime Minister Thatcher called for a June 9 election.

In the EMS, the mark remained at its new floor against the French franc throughout March and April. This situation was generated by the large interest rate differential favoring French over German investments.

Since April the mark has traded above its floor, in part because of the demonstrations in France.

Data available so far in 1983 suggest signs of a strengthening in economic activity in some industrial countries, and continued weakness in others. Industrial production in the first quarter of this year has increased strongly in Canada and moderately in Germany and the United Kingdom. Surveys or sales data indicate positive developments in Canada, Germany, and the United Kingdom. In April, Canada and Japan announced new budgets which appear to provide mild stimulus through changes in the timing of expenditures or taxes. In Italy, however, industrial production declined in the first quarter, and there is no evidence of an economic recovery. Although industrial production in France rose in the first two months of this year, prospects for further expansion are dim after the adoption in late-March of austerity measures accompanying the devaluation of the French franc. These measures included tighter monetary and fiscal policies estimated by the government to reduce demand by 2 percent of GDP. In mid-May France received a \$3.7 billion loan from the EEC.

Inflation has continued to abate in the major industrial countries except France, where prices increased in the first quarter faster than the fairly low rates maintained by price controls in the second half of 1982. Wholesale prices actually declined in the first quarter in both Germany and Japan.

The debt problems facing major developing countries continue to be a source of concern. In Brazil, although the current account adjustment that is part of the IMF-approved stabilization program seems to be attainable this year, sources of external credit appear to be providing

less financing than had been expected, and additional new money will probably be needed this year. In Argentina, the IMF's performance criteria for the first quarter were apparently met, but questions have been raised about the longer-run success of the program. Arrears are building up on Venezuelan private sector external debt repayments. Chile has announced a new financing plan which, if successful, would permit it to return to the IMF stand-by path no later than the end of September. While the external financial situation in Mexico is hardly rosy, Mexico was in compliance with the first-quarter performance tests of the IMF's Extended Fund Facility, and the short-run outlook is favorable.

In U.S. international transactions, the merchandise trade deficit (annual rate) in March was slightly larger (\$37 billion) than the average deficit (\$32 billion) in the first two months of the year. For the first quarter as a whole, however, the trade deficit was \$15 billion (annual rate) smaller than in the fourth quarter of 1982. Much of the swing appears attributable to temporary factors, particularly with regard to oil imports, which dropped at an annual rate of nearly \$20 billion. Lower petroleum consumption because of an unseasonably mild winter, inventory drawdowns, and lower prices reflecting oversupply in world oil markets generated the one-third drop in the value of U.S. oil imports. Nonoil imports, however, surged in volume from low fourth-quarter levels as the domestic economy expanded. Both agricultural and nonagricultural exports increased, the former reflecting mainly a temporary bulge in shipments of wheat to the U.S.S.R. and China, and the latter arising from sharp increases in commercial aircraft exports and automotive exports to Canada.

In U.S. international financial transactions, there was little change during the first quarter in either foreign official reserve assets in the United States or U.S. official reserve assets. The most striking development was the continuation of the decline in OPEC's holdings in the United States that began late last year as OPEC's current account moved into deficit. In private transactions involving securities, foreign residents sharply increased the volume of net purchases of U.S. corporate stocks from \$1.8 billion in the last quarter of 1982 to \$2.8 billion in the first quarter of this year. Net demand for U.S. Treasury securities on the part of private foreigners was also strong in the first quarter, amounting to \$2.9 billion.

Outlook. The staff's projection of economic recovery in major foreign industrial countries remains essentially unchanged, with real GNP growth during 1983 expected to be just over 2 percent and increasing to somewhat over 3 percent during 1984. The forecast for inflation has been revised downward slightly, and is now about 5-1/2 percent during this year and next. The staff's forecasts of the U.S. trade and current account deficits -- at \$62 billion and \$36 billion, respectively, for 1983 -- are essentially unchanged. These deficits are expected to increase dramatically in 1984. The forecast for the dollar is basically unchanged from the last Greenbook: a substantial depreciation is expected toward the end of this year and during 1984 in response to the projected widening in the U.S. trade and current account deficits.

MAY 17, 1983

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

	1982 ANN.	1983-P ANN.	1984-P ANN.	1982 Q3	1982 Q4	1983-P Q1	1983-P Q2	1983-P Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	20.5	-12.5	-36.8	7.0	9.0	16.6	-5.6	-25.6	-35.6	-38.9	-38.8	-36.1	-33.5
EXPORTS OF G+S	350.8	331.6	371.0	349.5	328.1	330.2	328.3	330.1	337.8	347.7	362.2	378.4	395.6
IMPORTS OF G+S	330.3	344.1	407.8	342.5	319.1	313.6	333.9	355.7	373.3	386.6	400.9	414.6	429.2
CONSTANT 72 \$, NET	31.8	17.6	20.2	27.5	27.2	24.0	18.4	13.8	14.4	16.2	18.0	21.5	25.1
EXPORTS OF G+S	148.1	137.6	147.7	147.5	138.8	138.5	136.8	136.7	138.7	141.3	145.2	149.9	154.4
IMPORTS OF G+S	116.3	120.0	127.5	120.0	111.6	114.5	118.4	122.9	124.3	125.1	127.2	128.3	129.3
TERMS OF TRADE (1972=100) 1/	83.4	84.2	78.5	83.0	82.7	87.0	85.1	83.4	81.1	79.6	79.1	78.2	77.2
2. U.S. MERCHANDISE TRADE BALANCE 2/													
EXPORTS (EXCL. MILITARY)	211.0	197.8	216.0	209.3	192.3	199.9	198.1	196.0	197.1	202.0	210.0	219.8	232.1
AGRICULTURAL	37.4	36.7	39.8	33.6	32.3	36.0	36.4	36.9	37.5	38.7	39.6	40.1	40.8
NONAGRICULTURAL	173.6	161.1	176.2	175.8	160.0	164.0	161.7	159.2	159.6	163.4	170.4	179.7	191.2
IMPORTS	247.3	259.3	309.3	259.3	240.8	233.7	251.0	269.2	283.2	293.4	302.6	314.3	327.0
PETROLEUM AND PRODUCTS	61.2	55.2	66.7	65.8	62.8	62.0	53.8	60.6	64.4	64.8	65.0	66.9	70.0
NONPETROLEUM	186.1	204.1	242.7	193.5	178.0	191.7	197.3	208.7	218.8	228.6	237.6	247.4	257.1
3. U.S. CURRENT ACCOUNT BALANCE													
OF WHICH: NET INVESTMENT INCOME	-8.1	-35.5	-63.2	-20.9	-24.4	-7.0	-28.1	-47.8	-59.3	-64.3	-64.9	-62.5	-61.2
	28.7	27.9	31.5	28.3	28.3	28.0	26.7	27.4	29.6	29.1	29.0	33.1	34.5
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	-0.1	1.3	2.8	-2.2	1.7	2.3	1.8	1.3	2.9	3.3	3.0	3.1	3.4
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	5.7	5.6	6.0	6.0	4.5	5.6	5.8	5.9	5.7	5.4	4.9	5.0

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR

2/ INTERNATIONAL ACCOUNTS BASIS

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PERCENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE.

GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%)

P/ PROJECTED